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THE ENVIRONMENT FUND AND ADMINISTRATIVE AND OTHER BUDGETARY MATTERS

Report of the Board of Auditors to the General Assembly on the accounts of the United Nations Environment Programme for the biennium ended 31 December 1995

Note by the Executive Director

In accordance with paragraph 6 of Governing Council decision 18/46 of 25 May 1996, the Executive Director has the honour to submit herewith for the information of the Governing Council at its nineteenth session the report of the Board of Auditors to the General Assembly on the accounts of the United Nations Environment Programme for the biennium ended 31 December 1995.

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REPORT OF THE BOARD OF AUDITORS

TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF

THE UNITED NATIONS ENVIRONMENT PROGRAMME

FOR THE BIENNIUM ENDED 31 DECEMBER 1995

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Introduction

1. The Board of Auditors has audited the financial statements of the fund of the United Nations Environment Programme (UNEP) for the period 1 January 1994 to 31 December 1995, in accordance with General Assembly resolution 74 (I) of 7 December 1946 and article XIV of the Financial Rules of UNEP. The audit has been conducted in conformity with article XII of the Financial Regulations of the United Nations and the annex thereto, and with the auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. These auditing standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit included a general review of financial statements and internal controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

3. The audit was carried out at the headquarters of UNEP at Nairobi, the Regional Office for Latin America and the Caribbean (ROLAC), Mexico and the Regional Office for West Asia (ROWA), Bahrain.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of

the United Nations Financial Regulations. The reviews concerned the efficiency of budgetary procedures, the internal financial controls, programme planning, monitoring and evaluation and, in general, the administration and management of UNEP, including that of the procurement of goods and services.

5. The Board continued its practice of reporting the results of specific audits through management letters to the Administration of UNEP containing detailed observations and recommendations. The practice helped in maintaining an ongoing dialogue with the Administration on audit issues.

6. A summary of main findings and recommendations is reported in paragraphs 11 to 27 below. The detailed findings of the audit are reported in paragraphs 28 to 87.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the report were communicated to the Administration. The Administration has confirmed the facts on which the Board's observations and conclusions were based and provided explanations and answers to the Board's queries. The report is divided into two parts, covering the audit of the financial statements and management issues respectively.

Follow-up on action taken on previous audit recommendations

8. Pursuant to paragraph 15 of General Assembly resolution 47/211 of 23 December 1992, the Board has reviewed the measures taken to implement its prior recommendations. The Administration has implemented the majority of the recommendations made by the Board in its report for the period ended 31 December 1993. 1/ Details of the action taken and the comments of the Board are outlined in the annex to the present report.

9. The Board considers that UNEP should take further measures to implement the Board's recommendation that competitive bidding should be maximised through advance planning of purchases (see paras. 69 to 72).

Overall results

10. Subject to the limitation on the scope of audit indicated in paragraph 31, the Board's examination revealed no weakness or errors considered material to the accuracy, completeness or validity of the financial statements as a whole.

1/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 5F (A/49/5/Add.6), sect. II

Summary of recommendations

11. The Board recommends that the following corrective actions, presented in order of priority, should be taken:

Programme management

(a) The policy framework for interaction with non-governmental organizations (NGO) involved in the field of environment should be further expedited. The catalytic role of UNEP and the role of field offices in programme planning, project formulation and implementation should be clearly defined (see paras. 42 and 43);

(b) The merits and demerits of the present system of top down planning and its impact on project implementation should be reviewed to see whether a more composite and timely process should be evolved in its place (see para. 44);

(c) Planning and budgeting process should be integrated by obtaining all necessary approvals for programmes and projects in accordance with a time-schedule. Project implementation should be coordinated in a manner to avoid an uneven flow of expenditures (see paras. 47 and 49);

(d) A budgetary control mechanism should be put in place to avoid excess expenditures over allotments and late recording of expenditures (see para. 54);

(e) UNEP should take measures to obtain the required documents to enable closure of all completed projects. (see para. 58).

Financial management

(f) Efforts should be continued to ensure that all executing agencies provide audited expenditure statements and audit certificates in respect of monies released from the Environment Fund soon after the financial period is over (see para. 32);

(g) Budgetary assumptions should be modified to adopt an averaging method of estimating exchange rates and location-specific vacancy rates. UNEP should also prepare more realistic estimations of voluntary contributions (see paras. 37, 39 and 40);

Procurement

(h) The practice of placing piecemeal purchase orders for commonly used commodities should be avoided (see para. 71);

(i) The established rules and procedures on procurement, including those relating to competitive bidding should be enforced more rigorously (see paras. 76);

(j) Deliveries of supplies by vendors should be monitored against stipulated time schedules and a vendor performance system should be established early. Inclusion of a penalty clause in contracts, at least on a selective basis, should be considered (see paras. 78 and 80);

Publications

(k) More comprehensive annual publishing programmes should be established in concert with all programme managers. Guidelines should be issued to prevent unplanned external printing of publications including the requirement of prior approval of the editorial committee (see paras. 65 and 67);

Consultants

(l) Appointment of consultants should be regulated in line with the established policies; the roster of consultants should be updated periodically. Selection of consultants should be made after considering alternate candidates by widening the search for prospective candidates. Guidelines should be established for determining consultant's fees (see paras. 82 and 83);

Conference services

(m) The possibility of renting out the available surplus capacity of the conference facilities should be considered (see para. 86).

Summary of findings

Financial management

12. Executing agencies have not provided expenditure statements and audit certificates in respect of substantial amounts released to them for project implementation (see para. 31).

13. There was a decline in the liquidity position of the Environment Fund, the General Trust Fund and the Multilateral Fund from 1:1.95 to 1:1.30 (see para. 33).

Budgetary assumptions

14. The contributions assumptions used in the preparation of the budget for the Governing Council were unrealistic. The estimation of exchange rates variations and vacancy factor for the purpose of budget formulation required refinement (see paras. 35, 39 and 40).

Programme management

15. A policy framework has not been clearly established delineating UNEP's role in project formulation and programme

management vis-à-vis its executing agencies. The role of regional offices also has not been clearly set out (see paras. 41 and 43).

16. Delays in programme planning had resulted in consequential delays in start up of projects for the biennium 1994-1995. An uneven pattern of project expenditures was also noted (see paras. 44 and 46).

17. The procedures for project appraisal and approval were deficient. A substantial number of projects were accepted for implementation towards the end of the biennium (see para. 48).

18. As compared to earlier periods, the frequency in project revision was significantly less which was a positive achievement. (see paras. 52).

19. UNEP's project monitoring procedures were adequate; but the system for project evaluation required substantial improvement (see paras. 55 and 59).

Publication

20. Although UNEP had not prepared a publication programme since 1993 a tentative programme had been established for 1996-1997. UNEP also did not ensure full utilization of the internal printing

facility before printing works were contracted out (see paras. 64 and 66).

Procurement

21. UNEP continued to make piecemeal of purchases for commonly used items (see paras. 69 and 70).

22. Requisitioners were permitted to suggest the names of vendors with whom orders were placed contrary to the normal concept of separation of duties. In cases where single tender action was taken, insufficient justification was rendered (see paras. 73 and 74).

23. In spite of persistent delays in delivery by vendors, contracts did not include penalty clauses; but the Administration proposed to apply penalty clauses on a selective basis in future (see para. 78 and 79).

Consultants

24. The consultant roster was not updated. Two countries accounted for 27 per cent of consultants appointed in the biennium 1994-1995. Alternative candidates were not considered before selection of consultants, as required (see para. 81).

25. The basis for fixing the remuneration of consultants was not transparent (see para. 84).

Job descriptions

26. Job descriptions have not been prepared in respect of some posts in the organization; this will impact on recruitment and appraisal procedures (see para. 85).

Conference services

27. There is substantial under-utilization of UNEP's conference facilities (see para. 86).

Part I: Financial statements

United Nations System Accounting Standards

28. The General Assembly in resolution 48/216 C of 23 December 1993 took note of the United Nations System Accounting Standards developed by the Administrative Committee on Coordination (ACC). These standards were subsequently revised by the ACC to include formats for financial statements (ACC/1995/20 annex III). The Board noted that UNEP's financial statements for the biennium ended 31 December 1995 generally conformed to the United Nations System Accounting Standards -Revision 1, except that the financial statements do not disclose the value of non-expendable property acquired by cooperating agencies and supporting organizations out of the funds provided by UNEP.

Reconciliation of inter-office vouchers

29. Reconciliation of inter office vouchers (IOV) by the United Nations Headquarters was carried out only up to 30 September 1994. A total of 205 IOVs amounting to $483,648 were processed by UNEP, but were shown by the United Nations Headquarters as outstanding as at 31 December 1995. Similarly, of 361 IOVs issued by the United Nations Headquarters during 1995, UNEP had received only 308. The Board recommends that UNEP should carry out periodic reconciliation of IOVs in concert with United Nations Headquarters.

Accounts receivable

30. The Board's analysis of other accounts receivable showed that the total amounts outstanding had increased by some 61 per cent over the corresponding figure for the biennium 1992-1993. Some 57 per cent of the accounts receivable related to other United Nations organizations, 31 per cent to staff members and 12 per cent to others. The amounts outstanding from staff included travel advances amounting to $642,107 in respect to travels undertaken from 1990 onwards. The Board recommends that the Administration should take measures to adjust/recover the advances in accordance with United Nations rules and policies.

Audit certificates

31. Some $26.9 million of UNEP's total programme expenditure of $121 million was released to supporting organizations including

various governments, inter-governmental organizations (IGOs) and non-governmental organizations (NGOs) to fund programme activities during the biennium 1994-1995. UNEP does not receive original accounts documents in respect of the expenditures incurred by these agencies; but the expenditures are included in UNEP's accounts on the basis of statements of expenditures received from them. Under the terms of the project agreements, executing agencies are required to have their accounts audited for submission to UNEP. The Board does not have access to the original records of UNEP's executing agencies. Consequently, the Board relies on the work of other external auditors, as indicated by audit certificates, to gain adequate assurance that the funds advanced to executing agencies and reported in UNEP's financial statements, have been properly expended on UNEP projects. However, despite the persistent efforts made by UNEP, as of July 1996, several executing agencies had not submitted audit certificates in respect of expenditures totalling $ 12.2 million relating to the biennium 1994-1995. The Board has, therefore, restricted the scope of its audit to exclude this expenditure.

32. The Administration stated that the delays in receipt of audit certificates were mainly because several agencies had fiscal years which did not coincide with UNEP's or they did not have adequate resources to cover audit costs. In addition, the Administration informed the Board that a substantial amount of the expenditures in

1994 was incurred under small projects and sub-projects for which UNEP had not required audited expenditure statements. The Administration further clarified that UNEP is also vigorously seeking the submission of outstanding audit certificates and has taken measures to withhold future cash advances from those organizations who have not provided audit certificates. Also, UNEP will not enter into new contractual arrangements with supporting organizations who have not provided necessary audit certificates. The Board welcomes these measures and recommends that efforts should be continued to ensure that all executing agencies provide audited expenditure statements and audit certificates in respect of monies released from the Environment Fund, soon after the financial period is over.

Liquidity position

33. The Board noted that the ratio of current assets to current liabilities in respect of the Environment Fund, the General Trust Funds, and the Multilateral Fund had declined from 1:1.95 at the end of 1993, to 1:1.3 as at 31 December 1995, mainly due to an increase in current liabilities. However the Board noted that in each case, even if the unpaid pledges were excluded, the current assets were sufficient to meet the liabilities as and when they fell due.

Write-off of losses of cash, receivable and property

34. According to the information provided by UNEP and as shown in note 10 to the financial statements, 19 cases of uncollectible receivables amounting in total to $13,734 were written off during the biennium 1994-1995.

Part II: Management issues

Budgetary assumptions

Estimation of resources

35. The actual receipt of contributions of $130.6 million for the biennium 1992-1993 was far below the estimated contribution of $235 million included in the budget documents presented to the Governing Council. Similarly, in the biennium 1994-1995, the contributions dropped to $122 million against the estimated contributions of $163.48 million.

36. During 1994-1995, there was an over expenditure of $33.9 million or 26.9 per cent of the total income in the Environment Fund. This over-expenditure contributed to a significant reduction of the balance of the Fund from $38.8 million as at 31 December 1993 to $5.6 million as at 31 December 1995.

37. Since the estimation of income has a significant impact on the budgetary and planning process, the Board suggests that the Administration should prepare a more realistic estimation of income

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37. Since the estimation of income has a significant impact on the budgetary and planning process, the Board suggests that the Administration should prepare a more realistic estimation of income

based on past trends and through closer coordination with donor agencies and establish their programme budget accordingly.

38. According to the Administration, the contributions assumptions used in the preparation of the budget for the Governing Council are no more than an estimation of the contributions that would be required to implement the programme proposed to the Council. Once the Council has approved a programme budget for the following biennium at its current session, another estimate required to implement the approved budget is prepared. This adjusted target was not, in the past, reflected in the Report of the Governing Council; but the Administration has informed the Board that this will be done in the future.

Rate of exchange

39. The Board noted that UNEP adopts the latest available rates of exchange for preparation of its programme budget and for recosting purposes, except that the average of twelve months from January to December 1994 was used for the revised appropriations for 1994. Based on an analysis for duty station Nairobi, the Board pointed out that an exchange rate based on the averaging method would be more realistic. The Administration agreed with the Board and proposes to adopt the averaging method for calculating all future Management and Administration Support Cost Budget (MASC) and OTL budgets.

Delayed recruitment factor

40. The Board noted variations between the assumed rates of vacant posts (lapse factor) and the actual rates at different duty stations of UNEP for both bienniums 1992-1993 and 1994-1995. The Board therefore pointed out that it would be more realistic to adopt location specific vacancy rates for determining the budgetary estimates. UNEP has accepted the Board's recommendation.

Programme management

Defining the role of UNEP in programme management

41. The Administration has not yet established a policy framework and mechanism for working with non-governmental organizations (NGO) in the field of environment, in compliance with the directive of the Governing Council of UNEP in its eighteenth meeting in May 1995. In the absence of such a framework, UNEP continued to take up direct implementation of a substantially large number of projects which accounted for about 73 per cent of UNEP's programme funds for the biennium 1994-1995. The Administration informed the Board that as of July 1996, the policy framework for interaction with NGOs involved in the field of environment has been drafted, following a consultation process with selected NGOs and with the UNEP Executive Committee. Also, UNEP is drawing on contributions from scientific and other communities on emerging environmental issues.

42. The Board encourages UNEP to expedite further the development of its policy framework. This should also take into account the recommendations included in the report of the Office of Internal Oversight Services (E/AC.51/1995/3) that UNEP should, in its catalytic role in emerging environmental issues, draw to a greater extent on the contributions of the United Nations system and of the international scientific and other professional communities.

Role of field offices in programme formulation

43. The Board's audit of UNEP's Regional Offices for Latin America and the Caribbean (ROLAC) and West Asia (ROWA) disclosed that they did not have a significant role in project planning, implementation and monitoring. According to the Administration, ROLAC has a deciding role in selection of projects, most of which are implemented by specialized regional bodies. The Board took note of the steps being taken by the Administration to enhance the role of regional offices and encourages UNEP to strengthen the involvement of regional offices in project planning, monitoring and evaluation.

Macro level review of programme planning

44. The Board noted delays in: preparation of work programmes for the biennium 1994-1995; approval of projects; and allocation of funds. For instance, mainly due to the administrative delays in issuing updated guidelines and in submission of the programme of work to the Governing Council, UNEP's projects for 1994-1995 could

be approved by the Executive Director only during the period from March to August 1994 resulting in delays in the start-up of these projects by three to seven months. These delays were partly because of the inherent deficiency in the present system of top down planning. The Board therefore suggested that prior to determining the level of programme support to be provided, UNEP should first assess the need of the beneficiaries in more detail. In addition, the assessed needs and identified projects should be utilized to build up a composite programme, within the approved policy framework, in accordance with an appropriate time schedule. UNEP proposes to adopt this approach in planning the work programme for the biennium 1998-1999.

45. The Administration clarified that while there were some administrative delays in the preparation of the 1994-1995 programme of work and project approval, no such problems were experienced in the 1996-1997 programme and most projects were approved by January 1996. They also stated that the present UNEP planning system is already being initiated from the level of Programme Managers.

46. The Board was pleased to note that 97 per cent of allotments were utilized at the global level during the biennium 1994-1995. The Board however observed that, of the total fund expenditures of $116.6 million during the biennium, 64 per cent were incurred in 1995. As of 30 September 1995, there were some 109 projects in

respect of which no expenditures had been incurred at all and there were 71 other projects with recorded expenditures of less than 25 per cent of the respective allotments. The Board noted that as of 30 September 1995, about 20 per cent of the allocations for 1994 and 45 per cent of the allocations for 1995 remained unutilized.

47. According to the Administration, the uneven pattern of expenditures partly reflected the delays in recording of expenditures already incurred. The Board recommends that in order to avoid a rush of expenditures towards the end of the biennium and to ensure a well-coordinated programme implementation, UNEP should improve its programme planning and expenditure pattern and periodically review the programme expenditures against specified financial targets.

Project planning and formulation

48. Procedures followed by UNEP for formulation and approval of projects needed improvement. The Board observed that although UNEP had decided to close all projects of 1994-1995 biennium by the end of December 1995, a large number of projects were approved in the last quarter of 1995, including 18 which started in December 1995. In addition, 11 projects had completion dates in 1996. Further, in one sub-programme, 6 projects accounting for some 21 per cent of its total allocation were not formulated until December 1995.

49. According to the Administration, in most cases actual approval of the projects documents was received late from the executing agencies resulting in their late acceptance. In addition, some projects were approved late when additional resources became available. The Administration informed the Board that it plans to establish a Project Advisory Group to review and approve project proposals. The Board trusts that with establishment of the Project Advisory Group the Administration will ensure timely approval of projects in future.

Project implementation

50. The Board's review of 12 projects implemented by UNEP disclosed that eight of them had suffered cost overruns and nine had undergone time overruns due to difficulties in identifying consultants at the national level, problems associated with national level contributions and other local conditions. The Administration stated that since UNEP's projects are funded on a voluntary basis, project implementation was subject to the availability of funds which resulted in time and cost overruns.

51. The Board noted that the uneven pattern of utilization of expenditures during the biennium 1994-1995 also may have contributed to the time overruns (see para. 46). The Board is of the view that in order to avoid widespread project delays and cost

overruns, UNEP should develop a more detailed programme strategy taking into account fund constraints and other factors.

Frequent revisions of projects

52. The Board had, in its report for the biennium ended 31 December 1991, pointed out that frequent revisions of projects in UNEP indicated either poor project designs or inefficient programme implementation. The Board was however pleased to note that the number of project revisions during the biennium 1994-1995 were less than in the previous years. According to the Administration, the need for frequent project revisions had been drastically reduced by close coordination with programme managers.

Budgetary control

53. The Board noted that 59 projects implemented by UNEP had excesses over allotments as at 31 December 1995. In several cases, expenditure exceeded allotments beyond the permissible limit of 20 per cent. In some other cases, expenditures were recorded in the absence of allotments. The Administration stated that as a standard practice, requests for re-allocations between budget line items were authorized pending revisions of projects so as to avoid delays in implementation.

54. The Board suggests that UNEP should strengthen its project budgetary control and periodically review all cases of negative

balances recorded in project accounts and take appropriate and timely remedial action.

Project monitoring

55. The Board was pleased to note that UNEP has established a detailed procedure for monitoring the projects under implementation. Executing agencies are required to submit a half yearly progress report (HYR) and an expenditure report in respect of each project.

56. The Board's review of project documents however revealed that the follow-up action to be taken by the executing agencies as a result of the review of HYRs was not generally documented. The Board recommends that the Administration should record the results of the review and issue instructions to executing agencies regarding the follow up action required.

Delays in terminating completed projects

57. The Board had recommended in its report for the biennium ended 31 December 1991 that action should be taken to obtain all prescribed reports so as to allow timely closure of completed projects. The Board's review disclosed that in 485 projects the completion dates had expired, but the projects had not been formally closed in the absence of required terminal reports, evaluation fact sheets, final audited statements and inventory

lists. The Board verified that the completion dates of eight such projects under a sub-programme, pre-dated 1988. The Board also observed that none of the projects approved in 1994-1995 biennium had been closed though the Administration had decided in principle to close all of them and to start a new programme from the biennium 1996-1997.

58. The Board's scrutiny showed that the delays in preparation of the prescribed reports by programme managers were due to the low priority assigned to such work. The Board recommends that UNEP review all such cases and take steps to obtain the required documents to enable timely closure of all completed projects.

Evaluation and follow up

59. The Board noted that during the biennium 1994-1995 only 21 ongoing projects were evaluated by UNEP. Out of these, three evaluations were carried out by UNEP staff and the rest were undertaken by consultants. The Board did not find evidence of any ex post facto evaluation of projects. In the absence of ex post facto evaluation, terminal reports and self evaluation fact sheets it was not possible to assess whether value for money was achieved in respect of these projects.

60. The Administration agreed that procedures for project evaluation required considerable improvement. The Board recommends

that the system of evaluation of projects be improved by stronger follow-up action on outstanding terminal reports and evaluation fact sheets. UNEP should also establish more detailed procedures and guidelines for evaluation.

Database of implementing agencies

61. UNEP maintains a database of executing agencies as part of its Project Management System (PMS). This enables analysis of agency performance such as delays in reporting, frequency of revisions and fund utilization. The Administration accepted the recommendation of the Board that the PMS should be utilized to weed out inefficient executing agencies.

Inadequate documentation

62. The Board observed a lack of sufficient documentation in project document (PRODOC) files. These, for instance, did not contain the details of action taken on a HYR, of an advance given for the project or grounds for a project revision. The Board therefore recommended that UNEP should consider providing a history sheet in each project document file where all events in the life of a project could be properly documented. The Board considered that such a system would help in building up institutional memory.

63. The Administration stated that with the abolition of its Central Registry, both the Programme and Fund Programme Management

Branch of UNEP will maintain a comprehensive filing system for each project which, together with project progress reports, terminal reports and self-evaluation reports, will adequately meet the requirements. The Board will review the progress in its future audits.

Publications

64. Although UNEP is required to prepare an annual programme covering all proposals for publication, which should be approved by the editorial committee, the Board noted that no such programme had been prepared by UNEP since 1993. The Administration's efforts to collect details of the proposed publications relating to project outputs did not succeed due to the poor responses from the project managers concerned. The Board noted that external printing of publications was generally arranged directly by the programme managers without the intervention of UNEP's Information and Public Affairs (IPA) Division, since funds are released to them without the approval of the editorial committee. The Board considers that the existing practice does not ensure economy and efficiency in publication activities.

65. The Administration informed the Board that a new Publication Board and a tentative publication programme for 1996-1997 have been established. The Board suggests that UNEP should collect advance information from programme managers on proposals for publication of

project outputs. UNEP should also prepare a comprehensive annual publishing programme covering all of its publications so as to help in the formulation of a production and dissemination strategy. UNEP should also ensure that no publication is printed without the approval of the editorial committee.

External printing of publications

66. The UNEP publication manual provides that external printing of publications should be resorted to only if internal printing was not possible, but the Administration has not issued any guidelines to implement this policy. The Board noted that the capacity of the print shop was never fully utilized; but printing of a large number of publications was contracted out incurring relatively higher costs.

67. The Administration attributed the inability of the print shop to do high quality printing and the difficulties to distribute publications from Nairobi as the main reasons for external printing. It also stated that the print shop gives priority to conference documents. The Board suggests that the Administration should carry out a detailed review of the in-house capability of printing publications and establish norms and guidelines for external printing of project outputs, after assessing the comparative costs and other factors.

Pricing policy of publications

68. UNEP had not priced most of its publications due to the absence of a pricing policy. As recommended by the Board, UNEP has since established an appropriate pricing policy for its publications and has also revised its Publications Manual suitably to cover pricing.

Procurement

69. The Board had, in its report for the biennium ended 31 December 1993, pointed out the need to maximize competitive bidding through advance planning. In pursuance, the Executive Director had assured the Governing Council that action would be taken to initiate advance procurement planning wherever possible. The Board's review disclosed that UNEP was yet to establish an annual procurement plan. Lack of procurement planning prevents consolidation of orders, denying the benefits of economies of scale and overall competitiveness in procurement.

70. The Board noted that during 1995, out of a total of 718 purchase orders placed for over $4.6 million, orders for a value of $1.5 million were for EDP equipment and software. These were issued to various firms at different times and on a piecemeal basis. Similarly, over 143 orders were placed for articles of stationery, 27 orders for photocopying machines and spares and 12

orders for facsimile machines. As a result of piecemeal processing of purchase orders only 4 out of the 718 orders were submitted to the local committee on contracts for advice.

71. The Board also noticed a rush of expenditures towards the end of the biennium. During 1995, out of the 718 purchase orders, 98 (29 per cent of the total value) were placed in December 1995. Further, purchase actions continued to be made on an urgent basis for procurement of items which could have been assessed in advance. The Board therefore recommended that UNEP should discourage placing of piecemeal purchase orders, as well as frequent unplanned purchases on an urgent basis and a rush of expenditures towards the end of the biennium. For this purpose, UNEP must ensure that each substantive unit prepares a purchase plan based on need, which collectively should form UNEP's annual procurement plan.

72. The Board was informed by UNEP that they have since prepared an annual procurement plan under United Nations Office for Nairobi (UNON). UNEP also proposes to submit its procurement plan for 1997 to UNON. The Board welcomes this measure.

Observance of financial rules on contracts and purchases

73. The relevant financial rules and procedures relating to procurement were not always adhered to in the area of requisitioning of supplies and invitations for bids. For example,

in several of the cases reviewed, requisition forms were not raised and in other cases the requisitions were not signed by the appropriate certifying officers. Additionally, the Board was concerned that requisitioning departments were invited to propose the names of the vendors with whom the orders were to be placed, contrary to the normal separation of duties.

74. The Board reviewed 20 purchase orders including 16 purchase orders for amounts in excess of $20,000 each. Although the financial rules provide for inviting sealed bids for purchases above $20,000, the Board noted that sealed bids were not invited, as required, in 14 out of 16 cases for the amounts in excess of $20,000 each. The Board also noted that 82 of the 718 purchase orders issued in 1995 were placed on single tender basis and that insufficient justification was recorded in respect of these single tender activities.

75. In many cases, the abstract of quotations did not allow for a comparative analysis of bids. For instance, relevant conversion rates were not quoted for bids received in currencies other than US dollars. In some cases, rates for all specified items, terms of freight/insurance charges, terms of payment, delivery period etc., were not included as required under the established procedures.

76. The Board recommended that UNEP enforce the established rules and procedures on procurement, including those relating to competitive bidding, more rigorously. In addition, requisitioners should be discouraged from suggesting the names of vendors to the procurement officer to avoid any conflicts of interest.

77. The Administration concurred with the Board's recommendation concerning the enforcement of established rules and procedures of procurement, including those relating to competitive bidding. UNON however considered that the practice of requisitioning units suggesting names of vendors was acceptable since this was permissible under the Procurement Manual. The Board would however discourage UNON from following this policy.

Delays in delivery of goods

78. The Board had, in its previous report, pointed out several instances of delays in delivery of goods by vendors. These were compounded by the non-inclusion of a suitable penalty clause in the purchase orders. The Board noted that delays in delivery of goods persisted. There were delays of up to six months in the delivery of goods, but no action was taken against the vendors concerned. The Board therefore reiterated its recommendation that the Administration should include a penalty clause to guard against such delays.

79. The Administration stated that the Contract and Procurement Unit under UNON was closely monitoring the delivery schedules through a newly set up database and that penalty clauses would be applied on a selective basis.

Vendor performance appraisal

80. The Board drew UNEP's attention to the need to develop a system to monitor vendor performance. The Administration has agreed to develop a system based on four parameters namely, timely delivery, quality, price and service. The Board recommends that this should be established early.

Human resources management

Selection of Consultants

81. The Board noted that the consultants' roster was neither updated nor used. For instance, of the first 100 consultants hired during 1994-1995, only one was from the available roster. Further, two countries accounted for over 240 (27 per cent) of the 880 consultancy assignments. The Board's scrutiny of 36 SSAs revealed that in a number of cases alternative candidates were not considered and where additional names were included, no details other than the educational qualifications of comparators were available. A comparative evaluation of the merits of comparators was, thus, not possible.

82. The Board therefore recommended that UNEP should periodically update the consultants' roster which should include a full range of candidates from a wide geographical dispersion. The Board also recommended that UNEP should document its evaluation of candidates showing full justification for the selection.

83. The Administration has informed the Board that UNEP was in the process of updating its roster of consultants. UNEP has also issued revised guidelines for recruitment of consultants to ensure that consultancies are awarded on the basis of established need, expertise and value for money. UNEP will also make every effort to select consultants from the full range of countries including developing countries and countries with economies in transmission, taking due consideration of geographical and gender balance.

Level of remuneration of consultants

84. The Board's test check of the fees paid for 75 consultancy assignments during the biennium showed wide variations in the level of fees paid for assignments of a broadly similar nature. For instance, amounts paid for project works varied from $1,000 for a four month project duration to $37,765 for a six month project. Similarly, fees paid for report work varied from $1,000 to $25,000 for four months duration. In another case, a consultancy contract for $25,000 was awarded to a person by way of an out of court settlement against his claim for compensation for withdrawing a job

offer. The fees offered to him was for writing four articles to a journal which appeared to be excessive, though according to the Administration, the engagement of the consultant was essential to guarantee the continuation of the publication. The Board recommended that UNEP should establish guidelines for determining the consultancy fees.

Finalization of job descriptions

85. The Board observed that job descriptions did not exist in respect of several posts in UNEP. Absence of job descriptions affects the objectivity of the recruitment procedure and personnel performance appraisals. UNEP had not completed this task though a classification officer was appointed in 1994 and two consultants were hired for the purpose. The Administration stated that they were giving priority to the classification exercise and added that the limited staff resources impacted on the progress of work. The Board recommends that the Administration take effective measures to finalize the job descriptions in respect of all posts expeditiously.

Conference services

86. The Board's review of utilization of eight conference rooms in UNEP disclosed that there is substantial spare capacity, after taking into account the overall requirements of all United Nations organizations in Nairobi. The Board therefore recommended that

UNEP consider the possibility of hiring out the conference facilities to outside organizations as a revenue earning measure. The Board was told that UNON is already in the process of implementing the recommendation.

Cases of fraud and presumptive fraud

87. The Administration informed the Board that no case of fraud or presumptive fraud had come to its notice during the biennium 1994-1995.

Acknowledgement

88. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended by the Executive Director, her officers and staff.

Osei Tutu PREMPEH
Auditor-General of Ghana

Sir John BOURN
Comptroller and Auditor General of the
United Kingdom of Great Britain
and Northern Ireland

Vijay Krishna SHUNGLU
Comptroller and Auditor General
of India

31 July 1996

Annex

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1993 a/

I. RECOMMENDATION 10 (a)

1. Value for money considerations should be given adequate attention, not only while planning a project but also during its implementation, monitoring and evaluation. Further, methods and procedures should be devised to facilitate delivery of outputs of expected quality in accordance with the work-plan and timetable set out in the project documents.

Measures taken by the administration

2. Delivery of project outputs is closely monitored by the Accountability, Monitoring and Reporting Unit (AMRU) in the Corporate Planning and Accountability Service. Sixty-four per cent of the postponed outputs have been implemented in 1994-1995, 23 per cent have been terminated, and 12 per cent have been further postponed to the 1996-1997 biennium.

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a/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 5F (A/49/5/Add.6), sect. II para. 10

3. AMRU is presently preparing a report on "Implementation of UNEP Programme 1994-1995", which will be distributed to Governments as an inter-sessional Governing Council document. The document contains 2 parts: the first part shows each activity as described in the Programme of Work 1994-1995, and the corresponding projects designed and approved to implement the activity; the second part contains a fact sheet on each project showing the needs addressed by the project, its results, the activities undertaken and outputs produced.

Comments of the Board

4. The Board's review indicated that there was further scope for improvement in project planning, implementation and evaluation as discussed in the present report under 'Programme Management'.

II. RECOMMENDATION 10 (b)

5. The format of project progress reports, terminal reports and self-evaluation fact sheets should be suitably changed to enable a more meaningful monitoring and evaluation of projects. The review of the UNEP manual on design, approval and evaluation, and the revision of procedures of evaluation, should be done early to ensure evaluation of a larger number of ongoing projects.

Measures taken by the Administration

6. The format of progress reports and terminal reports were reviewed and formats changed by Fund Programme Management Branch in 1995. These formats will be changed in line with the new UNEP Manual on Project Design and Evaluation currently being re-written by PEDU/CPAS. The self-evaluation fact sheet was completely revised in 1994 by PDEU/CPAS and the new version was used for the first time in 1995. The new self evaluation fact sheet is more objective and better focused.

7. The review of the UNEP Manual on Design, Approval and Evaluation was completed in 1995 by PDEU/CPAS., and the manual is being re-written (1996) with the view of making it more relevant given present developments. But the Manual will also be made more user friendly, simplify project process and improve quality of projects.

8. The evaluation procedures were reviewed in 1994 and are reflected in the UNEP Evaluation Strategy Paper. In the biennium 1994-1995 the number of projects evaluated was more than thrice those evaluated in the 1992-1993 biennium. The organization continues to increase the number of evaluations as well as improving the quality of evaluation as a whole.

Comments of the Board

9. UNEP has a well established project monitoring system. However, the evaluation procedures are deficient especially with reference to post-project assessments. This has been discussed in the present report.

III. RECOMMENDATION 10 (c)

10. Effective follow-up of seminars and training workshops should be instituted to ensure that the benefits of the related projects continue to reach the target groups, that the projects do not remain one-time activities and that they had the desired impact.

Measures taken by the Administration

11. Follow-up action on seminars and workshops improved substantially in 1994-1995. Programme personnel are now better organized and are sending questionnaires to participants. During the biennium 1994-1995 PDEU/CPAS received more than double the numbers of questionnaires from participants as compared to the 1992-1993 biennium.

Comments of the Board

12. The Board is pleased to note these improvements.

IV. RECOMMENDATION 10 (d)

13. Activities directly undertaken by UNEP should always form part of internal projects and these should be monitored and evaluated properly. An operational project should not be used to provide temporary assistance for general programme management, as that practice vitiates budgetary control.

Measures taken by the Administration

14. The format of progress reports was changed in 1995 to enable the reporting to become more objective and monitoring meaningful. Further work will be done on progress reports in 1996 when the UNEP Manual is re-written. The progress reports format will be made similar to the new Self-Evaluation Fact Sheet which is already proving to be an important monitoring tool.

Comments of the Board

15. The Board is pleased to note these improvements.

V. RECOMMENDATION 10 (e)

16. An annotated bibliography of all UNEP publications should be issued and updated periodically to inform all concerned of the outputs available and to help avoid possible duplication of efforts.

Measures taken by the Administration

17. It has proved to be difficult to implement this audit recommendation, as the same point was raised during the 1994-1995 audit. A new Publication Board has been constituted by the Executive Director and has been given the task of studying all audit recommendations on this subject to determine the best course of action.

Comments of the Board

18. The Board's further comments on UNEP's publication activities have been included in the present report.

VI. RECOMMENDATION 10 (f)

19. The proposed overall review of the entire procurement system should, among other things, address the need to maximize competitive bidding through advance planning of purchases, discourage delays in vendor deliveries by incorporating a suitable penalty clause in purchase orders, assess the advantages of local instead of international procurement for appropriate purchase action, and improve the documentation of procurement cases.

Measures taken by the Administration

20. The Administration has informed the Board that an annual procurement plan has been prepared for 1996 under UNON.

Comments of the Board

21. The Board welcomes the action taken by the Administration.

VII. RECOMMENDATION 10 (g)

22. Adequate checks and balances should be built into the process of engagement of consultants and a periodic review should be instituted to ensure that there is no violation or circumvention of the well-established procedures and regulations in future.

Measures taken by the Administration

23. All divisions, regional and out-posted offices, and convention secretariats are now required to provide to the Executive Director's office a detailed quarterly report on consultants. Additionally, as a result of the merging of the administrations of Habitat and UNEP on 1 January 1996, a comprehensive review is being undertaken to improve the comparative evaluation of consultants and related procedures, which was expected to be in place by 30 June. The Administration has also taken steps to issue guidelines on recruitment of consultants.

Comments of the Board

24. The Board has included its further observations in the present report. In view of the re-structuring of the administrations of Habitat and UNEP, the Board will review the position in its future audits.

VIII. RECOMMENDATION 10 (h)

25. The system documentation of the existing electronic data processing systems should be improved. A method should be devised to evaluate periodically the utilization of available information technology facilities, and there should be a proper systems analysis before undertaking new computerization projects.

Measures taken by the Administration

26. The work of the Task Force on Information Systems has led to a complete re-organization of information technology activities. Systems Development activities have been consolidated in the Management Information Service of the United Nations Offices in Nairobi. All new systems development activities are being carried out with state-of-the-art systems analysis and design techniques in keeping with the change-over to state-of-the-art software products used for systems implementation (UNIX/SYBASE client-server technology). Documentation of old systems is being revised for systems maintenance purposes. Feasibility and cost/benefit analyses are conducted through periodic meetings with users. Designs are reviewed using design documents and protofigures before implementation.

Comments of the Board

27. In view of the clarifications, the Board has no further comments. The position will be reviewed further after implementation of IMIS in UNEP.

AUDIT OPINION

We have examined the following appended financial statements numbered I to IX, properly identified, and schedules 1.1-1.3, 2.1-2.3, 3.1 and 4.1 of the funds of the United Nations Environment Programme for the financial period ended 31 December 1995, in accordance with the Common Auditing Standards of the panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

Except for the effect of any adjustments that my be found to be necessary upon receipt of outstanding audited expenditure statements relating to executing agencies, in our opinion the financial statements present fairly the financial position of the organization as at 31 December 1995 and the results of its operations for the financial period then ended; that they were prepared in accordance with the stated accounting policies, which were applied on a basis consistent with that of the preceding financial period; and that the transactions were in accordance with the Financial Regulations and legislative authority.

In accordance with our usual practice, we have issued a long form report on our audit of the United Nations Environment Programme's financial statements as provided for in the Financial Regulations.

Osei Tutu PREMPEH
Auditor-General of Ghana

Sir John BOURN
Comptroller and Auditor General of the
United Kingdom of Great Britain
and Northern Ireland

Vijay Krishna SHUNGLU
Comptroller and Auditor General
of India

31 July 1996